Supreme Court, U.S.
FILED
SEP 22 1997
CLERK

No. 96-1470

IN THE
SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1996

QUALITY KING DISTRIBUTORS, INC.,
Petitioner,

v.

L'ANZA RESEARCH INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari to the United States
Court of Appeals for the Ninth Circuit

BRIEF OF AMICUS CURIAE SWAROVSKI AMERICA LIMITED IN SUPPORT OF RESPONDENT

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TABLE OF CONTENTS

INTEREST OF AMICUS CURIAE 1

SUMMARY OF ARGUMENT 3

ARGUMENT 5

I. APPLICATION OF THE FIRST SALE DOCTRINE WOULD RENDER SECTION 602(a) VIRTUALLY MEANINGLESS 5

II. AFFIRMANCE WOULD NOT PLACE AN UNFAIR OR IMPROPER BURDEN ON RETAILERS AND OTHER DISTRIBUTORS 8

A. Distributors Should Not Escape Liability For Disseminating Unauthorized Imports 9

B. Retailers May Avail Themselves of Common Sense Measures to Reduce the Risk of Liability 13

III. A BROAD REVERSAL BY THE COURT COULD HAVE DEVASTATING EFFECTS ON COPYRIGHTS IN INTRINSIC WORKS, NOT MERELY LABELS 15

CONCLUSION 19

TABLE OF AUTHORITIES

Cases:

Andrus v. Glover Const. Co., 446 U.S. 608 (1980) 7

BMG Music v. Perez, 952 F.2d 318 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206 (1992) 12

Cash Currency Exchange, Inc. v. Shine, (In re Cash Currency Exchange, Inc.), 762 F.2d 542 (7th Cir.), *cert. denied, sub. nom. Fryzel v. Cash Currency, Inc.*, 474 U.S. 904 (1985) 7-8

Columbia Broad. Sys. v. Scorpio Music Distribs., 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd*, 738 F.2d 421 (3d Cir. 1984) 5, 14

Disenos Artisticos E Industriales, S.A. v. Costco Wholesale Corp., 97 F.3d 377 (9th Cir. 1996) 8-9, 12

Harper & Row, Publishers, Inc. v. Nation Enterprises, 471 U.S. 539 (1985) 10

Hearst Corp. v. Stark, 639 F. Supp. 970 (N.D. Cal. 1986) 5, 11

L'Anza Research Int'l, Inc. v. Quality King Distribs., Inc., 98 F.3d 1109 (9th Cir. 1996) 5

Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co., 112 F.3d 1296 (5th Cir. 1997) 6

Oser v. Wal-Mart Stores, Inc., 951 F. Supp. 115 (S.D. Tex. 1996) 13, 14

Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc., 832 F. Supp. 1378 (C.D. Cal. 1993) 1, 5, 7

Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477 (9th Cir. 1994), *cert. denied*, 514 U.S. 1004 (1995) 6, 9, 10

Selchow & Righter Co. v. Goldex Corp., 612 F. Supp. 19 (S.D. Fla. 1985) 11

Swarovski America Ltd. v. Costco Wholesale Corp., Case No. CV 93-6365 SVW (SHx) (Dec. 21, 1994) 15

Swarovski America Ltd. v. Price/Costco Inc. and The Price Co., Case No. CV 93-7403 SVW (SHx) (Dec. 21, 1994) 15

Societe des Produits Nestle, S.A. v. Casa Helvetia, Inc., 982 F.2d 633 (1st Cir. 1992) 6

T.B. Harms Co. v. JEM Records, Inc., 655 F. Supp 1575 (D.N.J. 1987) 8

Twentieth Century Music Corp. v. Aiken, 422 U.S. 151 (1975) 18

Wildlife Express Corp. v. Carol Wright Sales, Inc., 18 F.3d 502 (7th Cir. 1994) 16

Statutes:

17 U.S.C. § 101 (1997) 11

17 U.S.C. § 106 (1997) 11

17 U.S.C. § 106(3) (1997) 9

17 U.S.C. § 109(a) (1997) ..... *passim*

17 U.S.C. § 602(a) (1997) ..... *passim*

Legislative Materials:

H.R. Rep. No. 94-1476 (1976) 8, 11

Miscellaneous:

Paul Goldstein, *Copyright* § 5.6.1.2 (2d ed. 1997) 7

Restatement (Second) of Torts § 402A (1965) 13

Uniform Commercial Code § 2-403 13

INTEREST OF AMICUS CURIAE[1]

Swarovski America Limited ("SAL") is a member of the Swarovski family of companies that are world-renowned for the full lead crystal figurines, jewelry, jewelry stones, and other decorative objects that they design, manufacture and sell. SAL markets the Swarovski companies' high quality copyrighted crystal figurines and decorative objects, which SAL sells in the United States under trademarks including SWAROVSKI SILVER CRYSTAL, SWAROVSKI COLLECTORS SOCIETY, and CRYSTAL MEMORIES. Through agreements with a European affiliate, SAL has an exclusive U.S. license to distribute and otherwise exploit rights in the crystal works that SAL sells.

As a copyright owner in crystal figurines and objects, SAL's interests in this case are two-fold. *First*, SAL's exclusive rights to distribute and otherwise exploit the copyrights in Swarovski's highly artistic works in the United States have already been impaired by the influx of gray market copies of its copyrighted works.[2] The appeal of Swarovski's crystal works, which SAL sells through a network of authorized, upscale retail dealers, depends in integral and essential part on the manner in which they are handled, displayed and marketed as premium products -- activities that are carefully prescribed and monitored by SAL. That appeal is significantly undermined by gray market sales of Swarovski's works through unauthorized channels such as discount establishments. A broad ruling that the first sale doctrine applies to Petitioner's gray market sales may be

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[1] The parties' written consents to the filing of this brief are simultaneously being submitted to the Clerk of the Court. Counsel for *amicus curiae* Swarovski America Limited authored this brief, and no entity other than Swarovski America Limited contributed financially to its drafting or submission.

[2] "Gray market goods" refers to goods "intended to be sold outside the United States but which are imported into this country without the consent of the owner of the United States trademark or copyright associated with the good." *Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1382 n.1. (C.D. Cal. 1993).

interpreted to extend to gray market sales of SAL's works, as well. If so, that would open the floodgates for gray market imports, thereby dissuading SAL's authorized retailers from carrying SAL's figurines, and Swarovski from creating these artistic works in the first place.

Second, SAL is party to several consent judgments and settlements against gray market importers and distributors. These include a recent consent judgment against the operator of a major discount chain, Price/Costco, Inc., a successor to which joined in an amicus brief submitted in Petitioner's favor. That judgment enjoins Price/Costco from distributing any unauthorized imports of copyrighted SWAROVSKI SILVER CRYSTAL figurines except under very limited circumstances. The continued viability of this injunction will likely turn on the Court's resolution of the perceived tension between the import prohibition in Section 602(a) of the Copyright Act of 1976 (the "Copyright Act"), 17 U.S.C. § 602(a) (1997), and the first sale doctrine, 17 U.S.C. § 109(a) (1997). More generally, the viability of SAL's entire marketing efforts -- and those of other U.S. distributors in the collectibles field, whose products are often sold on the gray market -- may well turn on the Court's decision.

As an exclusive U.S. distributor of copyrighted works, SAL's particular interests in this suit are not represented by Respondent or by any of the other *amici curiae* filing briefs in support of Respondent. None of these other briefs were submitted by, or cover certain issues specific to, an individual U.S. distributor of copyrighted goods manufactured abroad that are sold on the gray market.

SUMMARY OF ARGUMENT

Under the Copyright Act, copyright owners enjoy not only the right to control the initial distribution of their works in the United States but also, through Section 602(a), the ability to prevent unauthorized importation of those works. As SAL has witnessed firsthand, the protection afforded by Section 602(a) is vital to preserving the goodwill and high quality reputation in its copyrighted works and to encouraging the creation of future works -- a fundamental goal of the copyright laws. Applying the first sale doctrine beyond its intended reach to limit Section 602(a) would contravene this goal and deny copyright owners the protection they need to prevent tarnishment and devaluation of their works.

These general principles are supported by a host of arguments, many of which will be articulated by Respondent and other *amici*. SAL submits this brief to emphasize a few specific, discrete points as follows:[3]

1. Application of the first sale doctrine to foreign sales would render Section 602(a) virtually meaningless because most gray market imports have already been the subject of a first sale abroad. Moreover, there are already explicit exceptions to the importation ban built into Section 602(a), and applying the first sale doctrine would render these exceptions superfluous.

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[3] Although the specific question presented in *Quality King* is rather narrow, both Petitioner and supporting *amici* have taken the occasion to urge a more general application of the first sale doctrine in Section 109(a) to the importation ban in Section 602(a). SAL thus feels a need to respond to this more general proposition.

2. Liability for the sale of unauthorized imports must attach to retailers and other distributors as well as importers, and the first sale defense should not be available to either. Any contrary result would completely strip copyright owners of their exclusive right to control the initial distribution of their copyrighted products in the United States. Moreover, retailers' claims that they would suffer unduly if not afforded the opportunity to shield their gray market sales behind the first sale doctrine are greatly exaggerated. Such retailers and other distributors may employ contractual measures and other basic means to guard against liability for selling gray market imports. Certainly, in other contexts the law has imposed liability on remote purchasers of goods and services, and it makes sense to do so in the context of Section 602(a) as well.

3. Curbing any perceived "copyright misuse" in which owners of copyrighted labels engage is no justification for a sweeping decision that the first sale doctrine limits Section 602(a). Such a decision may adversely affect not only copyrights in labels, but also copyrights in intrinsic works that embody a high degree of creativity, such as SAL's crystal figurines. SAL's concerns are emblematic of a much greater problem: A ruling that the first sale defense is available to gray market importers and distributors would impact on the many businesses whose livelihood depends on having the exclusive rights to distribute their copyrighted goods in the United States.

ARGUMENT

I. APPLICATION OF THE FIRST SALE DOCTRINE WOULD RENDER SECTION 602(a) VIRTUALLY MEANINGLESS

The Ninth Circuit Court of Appeals correctly found that Section 602(a) "would be rendered meaningless if § 109(a) were found to supersede the prohibition on importation." *L'Anza Research Int'l, Inc. v. Quality King Distribs., Inc.*, 98 F.3d 1109, 1114 (9th Cir. 1996). As other courts have observed, were the first sale defense available to importers, they could easily circumvent the Section 602(a) importation ban by buying copyrighted goods indirectly, rather than from the copyright owner. *See Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1387 (C.D. Cal. 1993); *Columbia Broad. Sys. v. Scorpio Music Distribs.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983), *aff'd*, 738 F.2d 421 (3d Cir. 1984). Indeed, the case law is rife with examples in which importers did just that. *See, e.g., C & C Beauty Sales*, 832 F. Supp. at 1381-82 (defendant imported, as well as purchased from other gray market importers, perfume with copyrighted box design without copyright owner's consent); *Hearst Corp. v. Stark*, 639 F. Supp. 970, 972-73 (N.D. Cal. 1986) (defendants imported copyrighted books without copyright owners' consent).

In fact, were the first sale doctrine to apply, most gray marketers would automatically be shielded from Section 602(a) liability, for virtually all gray market imports have *already* been the subject of a first sale by the time they find their way into the United States. As the Fifth Circuit Court of Appeals observed in rejecting application of the first sale doctrine of trademark law to gray market goods:

> [A]pplying the first sale rule to an unauthorized importer such as [defendant] would mean that the gray-market importer would always escape liability. Unauthorized importers are never the first seller. They always purchase the goods from the manufacturer . . . or an intermediary, and resell the goods in violation of an agreement the manufacturer has with the exclusive distributor . . . .

Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co., 112 F.3d 1296, 1303 (5th Cir. 1997).[4] The first sale doctrine would thus eliminate a broad class of importers from Section 602(a) liability, rendering the provision virtually meaningless.

Petitioner has argued that, even were the first sale doctrine available, Section 602(a) would still have "meaning" because it would allow a copyright owner to prevent the

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[4] While *Herend's* observation about the purchasing practices of gray market importers is a key insight, the trademark law principles *Herend* espouses are irrelevant here. The *Herend* court found the defendant liable because its gray market goods were materially different from the plaintiff's trademarked goods. *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296, 1303 (5th Cir. 1997). The emphasis on "material differences" between authorized and gray market goods that underlies the trademark cases is in keeping with the primary goal of the trademark laws, that is, to prevent consumer confusion as to source and quality of products. *Societe des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 638-40 (1st Cir. 1992). The "material differences" test has no bearing in copyright cases, since the goals of the copyright laws are quite different from preventing public confusion as to product source. *See Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 483 (9th Cir. 1994) ("the Copyright Act has a purpose, scope, and statutory scheme different from either the Tariff or Lanham Trademark Acts"), *cert. denied*, 514 U.S. 1004 (1995).

importation of some copyrighted works. (Pet'r Br. at 10.) The provision, Petitioner reasons, would still apply to items such as stolen or piratical copies a defendant tries to import, or to copies imported by a licensee lacking title to the goods without the copyright owner's authorization. (Pet'r Br. at 26-27.) But these are artificial distinctions at best. There is no support in either the legislative history or the case law governing Section 602(a) to apply the importation bar to piratical, stolen and certain licensed works, but not to gray market imports that the importers have purchased abroad for resale in the United States.

Application of the first sale doctrine to Section 602(a) would also render superfluous the explicit exceptions contained in that section. Subsections 602(a)(1), (2) and (3) detail three specific exceptions to the ban on unauthorized imports. These provisions sanction imports for some governmental uses; imports for some private uses of "no more than one copy" and importation of copies in the "personal baggage" of "any person arriving from outside the United States"; and imports for some scholarly, educational or religious purposes. Each of these exceptions could involve, and indeed likely *would* involve, a first sale outside the United States. For example, the "importation" of copies in personal baggage by someone travelling to the United States may occur when tourists buy gifts for others or items for themselves to bring home, or foreign visitors buy gifts to distribute in the United States. If the first sale defense would negate infringement under Section 602(a), these exceptions would have no meaning and would be "superfluous." *C & C Beauty Sales*, 832 F. Supp. at 1388. *See also* Paul Goldstein, *Copyright* § 5.6.1.2, at 115-16 (2d ed. 1997).

Congress included three specific exceptions; the Court should not make the first sale doctrine a fourth. *See Andrus v. Glover Const. Co.*, 446 U.S. 608, 616-17 (1980); *Cash Currency*

Exchange, Inc. v. Shine (In re Cash Currency Exchange, Inc.), 762 F.2d 542, 552 (7th Cir.) (citing general rule of statutory construction that "the enumeration of specific exclusions from the operation of a statute is an indication that the statute should apply to all cases not specifically excluded"), *cert. denied, sub. nom. Fryzel v. Cash Currency, Inc.*, 474 U.S. 904 (1985). Section 602(a) should be interpreted as the House Report on the Copyright Act explains: "If none of the three exemptions applies, any unauthorized importer of copies or phonorecords acquired abroad" can be sued. *See* H.R. Rep. No. 94-1476 at 170 (1976); *see also T.B. Harms Co. v. JEM Records, Inc.*, 655 F. Supp 1575, 1578 (D.N.J. 1987).

II. AFFIRMANCE WOULD NOT PLACE AN UNFAIR OR IMPROPER BURDEN ON RETAILERS AND OTHER DISTRIBUTORS

Amici supporting Petitioner argue that, without resort to a first sale defense, retailers and other distributors would effectively be foreclosed from purchasing genuine goods from middlemen for resale out of concern that those goods were unauthorized imports. They contend that the language of Section 602(a) applies only to importers and not to distributors, and that distributors should not have to bear the burden of tracing the goods back to their source to discern whether or not their initial importation was authorized.[5] In truth, however, many retailers and other distributors have continued to purchase imports from middlemen, even in the wake of lower court rulings rejecting application of the first sale doctrine. *Cf. Disenos Artisticos E Industriales, S.A. v. Costco Wholesale Corp.*, 97 F.3d 377, 379

[5] Brief of *Amicus Curiae* Jan-Bell Marketing, Inc. in Support of Petitioner, at 2, 10-12; Brief of *Amicus Curiae* Costco Companies, Inc. et al., at 21-26.

(9th Cir. 1996) (noting that Costco purchased foreign-made goods from "alternative sources within the United States").

Moreover, as explained below, there are compelling reasons, supported by fundamental principles of copyright law, for subjecting distributors to liability for selling unauthorized imports. And imposing such liability is not unfair, for distributors may avail themselves of several common sense measures to alleviate the "risks" that may attach to their distribution of imported merchandise.

A. Distributors Should Not Escape Liability for Disseminating Unauthorized Imports

The Ninth Circuit has held distributors liable under Section 602(a). *See Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 482 (9th Cir. 1994) (affirming injunction against national retail chain that purchased gray market goods from unauthorized importers), *cert. denied*, 514 U.S. 1004 (1995). The Ninth Circuit's approach should be reaffirmed in this case, for it is the only logical means to preserving a copyright owner's exclusive right to control the U.S. distribution of its copyrighted products as provided in Section 106(3).[6]

As other *amici* note, distributors must be subject to Section 602(a), because the statutory language of that section is aimed at prohibiting importation that would lead to an infringement of a copyright owner's distribution rights. Subjecting distributors to liability is also consistent with the general principle that everyone in the chain of distribution may

[6] That section affords the owner of copyright the exclusive right "to distribute copies . . . of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending . . . ." 17 U.S.C. § 106(3) (1997).

be liable for infringement of a rightsholder's copyrights, trademarks, or other proprietary rights.

Beyond these arguments, there is another compelling reason for subjecting distributors to the importation ban imposed by Section 602(a). The Copyright Act explicitly grants to copyright owners the right to control the initial distribution of their works in the United States. *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 555 (1985) (The Copyright Act, which affords the copyright owner the right to control the initial public distribution of its work, "echoes the common law's concern that the author or copyright owner retain control throughout this critical stage."). Retailers and other distributors should not be permitted to invoke the first sale defense when the owner of the exclusive U.S. distribution right in the copyrighted goods has not yet exhausted that right. *See Drug Emporium, Inc.*, 38 F.3d at 482.

The facts in *Drug Emporium* illustrate this principle perfectly. There, a French manufacturer marketed its perfume in "distinctively decorated individual boxes" designed by its employees. *Id.* at 479. The manufacturer assigned the exclusive right to distribute perfume in its copyrighted boxes to plaintiff, a U.S. distributor ("Givenchy USA"). Third parties then imported the perfume without the French manufacturer's or Givenchy USA's authorization and sold it to Drug Emporium, a national retail discount chain, for distribution. Drug Emporium argued that it should not face liability for selling the goods under Section 602(a) because it was a retailer rather than an importer. In rejecting this argument, the Court of Appeals stated:

> This is not a material distinction because the purchaser of illegally imported copies has no more authority to distribute copies than does the original importer. *See* H.R.Rep. No. 1476, at 79, reprinted in 1976 U.S.C.C.A.N. 5659, 5693 ("any resale of an illegally pirated phonorecord would be an infringement"). *Drug Emporium therefore had no more authority to distribute the copyrighted Amarige box design than did the original importer. Nothing had happened to divest Givenchy USA of its 'exclusive rights.'* 17 U.S.C. § 106 ("the owner of copyright . . . has the exclusive rights" to authorize distribution of copies).

Id. (Emphasis supplied.)[7]

SAL's situation also illustrates the danger in allowing retailers to escape liability. Like Givenchy USA, SAL owns the exclusive rights to distribute certain copyrighted works in the United States.[8] The manufacturers of these works also sell many of them abroad for foreign distribution, and some of these pieces make their way into the United States on the gray market. Were the first sale doctrine to shield retailers' distribution of these

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[7] *Cf. Hearst Corp. v. Stark*, 639 F. Supp. 970, 978 (N.D. Cal. 1986) (Defendants' importations of books without authority of owner of exclusive distribution rights violated Section 602(a) and were not protected by first sale; "Defendants unauthorized importations have an undermining effect on the copyright owners' control over the public dissemination of the copyrighted works.").

[8] SAL is thus the copyright owner of the U.S. distribution rights in those works. *See* 17 U.S.C. § 101 (1997) (an exclusive license of "any of the exclusive rights comprised in a copyright" constitutes a "transfer of copyright ownership"); *Selchow & Righter Co. v. Goldex Corp.*, 612 F. Supp. 19, 21 n.2 (S.D. Fla. 1985).

imports, SAL would lose its exclusive rights to control first distribution of the copyrighted goods in the United States.[9]

As *Drug Emporium* and *amicus'* own situation make clear, the first sale defense should not be available to shield the subsequent distribution of unauthorized imports, for that defense would effectively nullify a foreign manufacturer's ability to grant exclusive U.S. distribution rights for its copyrighted works.

A contrary rule -- one that discriminates between importers and retailers, and absolves the latter of liability under Section 602(a) -- would simply reward the wholesalers, discount warehouses, and the like that deliberately purchase gray market goods intended for sale abroad for resale in the United States in defiance of a copyright owner's marketing plans. These distributors are not merely "little gift shop" owners as *amicus* Jan-Bell Marketing would imply.[10] Instead, they encompass large, sophisticated discount outfits whose business includes acquiring gray market products for resale in the United States. In many cases, such outfits may well be aware that the goods they purchase are not authorized for sale in the United States or, indeed, may even have engineered the importation of those goods into the United States.[11]

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[9] In any event, the first sale defense should not be available to unauthorized distributors of SAL's goods because those goods are manufactured and sold abroad, rather than domestically. *See BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206 (1992).

[10] *See* Jan-Bell Br. at 12, quoting *Disenos Artisticos E Industriales, S.A. v. Costco Wholesale Corp.*, 97 F.3d 377, 380 (9th Cir. 1996).

[11] Such distributors could also be liable as contributory infringers.

Moreover, imposing liability on a distributor several steps removed from the manufacturing source is not a novel, untested concept. As *amici* observe, such liability is already commonly imposed in other areas of copyright law. Additionally, in the product liability context, for example, retailers and distributors are often strictly liable for injuries resulting from defective products that are unreasonably dangerous to users, even though they were not responsible for the manufacture of those products. *See* Restatement (Second) of Torts § 402A (1965); *Oser v. Wal-Mart Stores, Inc.*, 951 F. Supp. 115, 119 (S.D. Tex. 1996) (Under Section 402A of the Restatement (Second) of Torts (1965), "retailers and manufacturers are jointly and severally liable for injuries caused by defective products.").[12]

B. Retailers May Avail Themselves of Common Sense Measures to Reduce the Risk of Liability

To the extent that merchants may not know whether products that they buy are authorized imports, there are at least two ways to resolve this seeming dilemma. First, a merchant may ask its suppliers for a representation, warranty and

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[12] *Amici* also contend that the "good faith purchaser for value" rule, codified in the Uniform Commercial Code ("U.C.C."), should shield downstream merchandisers from liability under Section 602(a). Jan-Bell Br. at 10-11; Costco et al. Br. at 21-26. But the section of the U.C.C. upon which one *amicus* specifically relies, Section 2-403, relates only to the passage of title in goods, not to liability for their infringing nature. Moreover, nothing in the case law, the Copyright Act or its legislative history bolsters the notion that this state contract law provision, alien to federal copyright law and policy, should guide the Court's interpretation of Section 602(a).

indemnity as to the source of the goods.[13] Analogous practices are customary in other areas of potential liability. For example, a company using a trademark, copyright or patent under license often asks the licensor for a representation and warranty as to the validity and enforceability of these intellectual property rights, and for an indemnity against infringement claims. In addition, retailers subject to strict liability for selling defective products may seek an indemnification from their suppliers.[14]

Second, a merchant, on some occasions, can determine from an examination of the goods themselves whether or not they were imported without the copyright owner's authorization. Copyrighted goods intended for sale outside of the United States often include different markings than their counterpart gray market items. If such markings are not readily apparent, a merchant may ask the manufacturer directly whether the goods are authorized imports. Alternatively, the merchant may ask the manufacturer to describe how to distinguish authorized goods from unauthorized imports, which may be as simple as adding a

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[13] In fact, at least one merchant did so in a reported decision addressing Section 602(a). *Columbia Broad. Sys. v. Scorpio Music Distribs.*, 569 F. Supp. 47, 49 n.6 (E.D. Pa. 1983) ("[Defendant] Scorpio had the foresight to secure a written indemnity agreement from International Traders. . . 'to pay all legal fees if [sic] in the event any legal actions are brought with regard to distribution of these records.'"), *aff'd*, 738 F.2d 421 (3d Cir. 1984).

[14] *See Oser v. Wal-Mart Stores, Inc.*, 951 F. Supp. 115, 119 (S.D. Tex. 1996) ("If [retailer] Wal-Mart was in fact an innocent victim of the manufacturer's sale of defective bags, then Wal-Mart would have a right to indemnity from the manufacturer.").

particular label to its packaging.[15] This is not merely a theoretical solution. SAL itself has provided such information on its authorized imports to distributors who have asked for it. In addition, SAL adopted a marking system for its authorized imports that was fully described in the Price/Costco consent judgment, which is publicly available.[16]

III. A BROAD REVERSAL BY THE COURT COULD HAVE DEVASTATING EFFECTS ON COPYRIGHTS IN INTRINSIC WORKS, NOT MERELY LABELS

Petitioner and its supporting *amici* seize on the fact that the copyrighted works at issue in *Quality King* are labels for hair care products. They argue that simply placing a copyrighted label on a "non-copyrighted", "non-creative" product allows a manufacturer to extend its copyright monopoly unlawfully to manipulate prices and amounts to copyright "misuse." (Pet'r Br. at 12, 33; Brief of AFTA as *Amicus Curiae* in Support of Petitioner, at 3, 24-25). They contend that a product label exhibits little creativity, deserves little protection, and should not form the basis for prohibiting gray market imports sold at a lower price that bear the same label.

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[15] *Amicus* Jan-Bell complains that copyright owners sometimes mark their goods with "secret codes" (Jan-Bell Br. at 11). Any manufacturer who wished to prevent gray market sales of its goods, however, would obviously benefit from marking its authorized imports in a readily discernible way. Otherwise, retailers who have no intention of selling unauthorized imports may inadvertently do so.

[16] Stipulation, Order and Final Judgment in *Swarovski America Ltd. v. Costco Wholesale Corp.*, Case No. CV 93-6365 SVW (SHx) (Dec. 21, 1994) and *Swarovski America Ltd. v. Price/Costco Inc. and The Price Co.*, Case No. CV 93-7403 SVW (SHx) (Dec. 21, 1994), ¶ 5.

In SAL's view, the fact that L'Anza's copyrighted works are labels should not affect the application of Section 602(a), or provide any vehicle for overturning the Ninth Circuit's decision below. Since those labels exhibit the requisite creativity for copyright protection, their unauthorized importation should be subject to Section 602(a) for the reasons set out herein and in the other briefs supporting Respondent.

The Court should be mindful, however, that its decision may also reach copyrights in intrinsic works of authorship such as paintings, books and sculptures. Were the Court to decide that the first sale doctrine *does* limit the ban on unauthorized imports, this decision would affect a wide array of copyrights subsisting in these intrinsic works, which merit a much higher degree of protection than labels. *See Wildlife Express Corp. v. Carol Wright Sales, Inc.*, 18 F.3d 502, 507-08 (7th Cir. 1994). Such a decision would open the floodgates for gray market importers, whose handling, marketing and sales practices would tarnish the copyrighted products, deprive consumers of valuable services provided by the manufacturer and its authorized representatives, and dampen the copyright owners' incentive to create and distribute these works.

SAL's situation is a prime illustration. SAL's copyrighted works are highly original decorative objects such as crystal animal and floral figurines. These works are designed by a small, select group of artisans at Swarovski's "Design Centre" in Austria and are manufactured by SAL's European affiliates based on a century-old tradition of skilled craftsmanship. SAL maintains a carefully circumscribed network of 3,000 authorized retailers nationwide, whose ranks include high end department stores such as Macy's and Marshall Field in Chicago and upscale jewelers such as Bailey Banks & Biddle, as well as many small, select independent jewelry and gift stores. These retailers operate

under specific written standards set by SAL for maintenance, marketing and distribution of SAL's works. They must display the works in a separate mirrored floor display provided by SAL that shows the works to best advantage. They are trained to provide valuable information to customers on issues such as the origin of the works, the handling of the works to prevent breakage and the display of the works to maximize their brilliance. SAL representatives regularly monitor the retailers' activities through visits to their stores to ensure adherence to these standards.

The influx of gray market goods has already adversely affected these carefully constructed marketing plans, despite SAL's continued efforts to police the gray market. The gray market copies crowded on the shelves of discount stores and warehouse clubs devalues these works and their special appeal to customers. Customers buying pieces from such chain stores expect, but do not receive, the information on handling of their purchases and other valuable services that SAL's authorized representatives have to offer. And authorized retailers lose sales to the chain stores who sell the pieces at a substantial markdown, and who "free ride" on the authorized retailers' careful efforts to display and market the Swarovski pieces in a carefully prescribed manner.[17]

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[17] Gray market sales also undermine SAL's efforts to offer an opportunity for its customers to obtain limited edition works. A decade ago, SAL established the Swarovski Collectors Society, which is now at least 100,000 U.S. members strong. Technically, only members of the Society may purchase SAL's limited series "Annual Editions" figurines. Recently, however, gray marketers have begun selling SAL's "Annual Editions" pieces to the general public, without SAL's authorization.

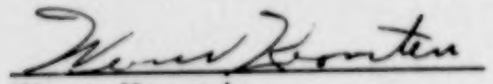
Were the Court to hold that the first sale doctrine shields retailers and other distributors from Section 602(a) liability, these problems may escalate to the point where SAL and other copyright owners find it no longer economically feasible to market their copyrighted products in the United States. This would not be merely a private business problem for a company like SAL, but would raise public concerns, for it would greatly discourage the creation of a whole class of artistic works by Swarovski and others. Although the principal aim of the copyright laws is not rewarding authors but stimulating artistic creation for the public good, *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975), the two go hand-in-hand: a law that prevents authors from reaping any rewards from their works will discourage further creation of those works for the public's benefit. Surely, this is not a result that the copyright laws are designed to encourage.

The potential impact on SAL is only emblematic of a much larger problem. A ruling that the first sale defense is available to unauthorized importers and distributors of gray market goods would have far-reaching effects on the multitude of businesses whose livelihood depends on having the exclusive rights to exploit their copyrighted goods in the United States. In many industries, as in the collectibles industry, copyrights are frequently allocated on a territorial basis. When copyrighted goods are created overseas, the copyright owners often grant the exclusive U.S. distribution rights to a single company that possesses the know-how, expertise, and creative judgment to select goods suitable for the U.S. market and to market them to the American public. This happens in the publishing industry, the record industry, the perfume industry, the crystal industry, and a myriad of others. When the gray marketers enter, however, the U.S. distributor loses its exclusive rights and, consequently, the ability to realize fully the value in its copyright.

CONCLUSION

For the reasons stated above, the decision of Ninth Circuit Court of Appeals should be affirmed.

Respectfully submitted,



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Dated: September 22, 1997